

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Benton Charter Township</u>	County Berrien
Audit Date December 31, 2004	Opinion Date May 4, 2005	Date Accountant Report Submitted To State: June 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 511 Renaissance Drive Suite 120	City St. Joseph	State MI	ZIP 49085-2180
Accountant Signature 			

# Charter Township of Benton

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Financial Report  
with Supplemental Information  
December 31, 2004

# Charter Township of Benton, Michigan

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# Charter Township of Benton, Michigan

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## Independent Auditor's Report

To the Members of the Township Board  
Charter Township of Benton

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Benton, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Charter Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Benton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Benton, Michigan as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the Township Board  
Charter Township of Benton

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Benton, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 12, the Charter Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2004.

A handwritten signature in black ink that reads "Plante & Morse, PLLC". The signature is written in a cursive, flowing style. To the right of the signature, there is a vertical red line.

May 4, 2005

# Charter Township of Benton, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Benton, Michigan's financial performance provides an overview of the Charter Township's financial activities for the fiscal year ended 2004. Please read it in conjunction with the Charter Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- The year 2004 saw the development of Woodridge Place, a 72-unit single-family subdivision. The estimated value of the development is in excess of \$15 million dollars, with lot sales generating \$1,604,500 in revenues for 2004.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charter Township as a whole and present a longer-term view of the township finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Charter Township's operations in more detail than the government-wide financial statements by providing information about the Charter Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Charter Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Charter Township of Benton, Michigan

## Management's Discussion and Analysis (Continued)

### **Benton Charter Township as a Whole**

The following table shows, in a condensed format, the net assets as of December 31, 2004. In future years, when prior year information is available, comparative data will be presented.

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 7,450,790	\$ 8,901,768	\$ 16,352,558
Noncurrent assets	<u>3,411,613</u>	<u>8,722,387</u>	<u>12,134,000</u>
Total assets	10,862,403	17,624,155	28,486,558
<b>Liabilities</b>			
Current liabilities	5,386,196	312,864	5,699,060
Long-term liabilities	<u>1,882,672</u>	<u>3,325,000</u>	<u>5,207,672</u>
Total liabilities	<u>7,268,868</u>	<u>3,637,864</u>	<u>10,906,732</u>
<b>Net Assets</b>			
Invested in capital assets:			
Net of related debt	1,969,009	5,169,654	7,138,663
Restricted	501,556	-	501,556
Unrestricted	<u>1,122,970</u>	<u>8,816,637</u>	<u>9,939,607</u>
Total net assets	<u><b>\$ 3,593,535</b></u>	<u><b>\$ 13,986,291</b></u>	<u><b>\$ 17,579,826</b></u>

The financial position of the governmental activities has deteriorated during the year because of increasing reductions of our state revenue sharing. In the year 2000, the Charter Township received \$1,899,750; in 2004, the Charter Township received \$1,525,697, an annual reduction of approximately \$374,000 over each year.

In addition, health insurance costs continue to rise at double digit rates, gasoline costs are at all-time highs, and interest rates were near all-time lows. Conversely, our business-type activities, in particular sewer and water funds, ended 2004 in stronger financial position than in 2003.

The most significant changes in fund balances were achieved in the General Fund, with an increase of approximately \$406,000, and the Water Fund, with an increase of approximately \$371,000. The General Fund increase occurred because of lot sales in the Woodridge development while the Water Fund increase was a result of higher rates. Fund balances for the Police and Fire Funds remain well below the recommended three-month level of operations and are a major concern for the future. At the end of 2004, there were no major restrictions on fund balances.



# Charter Township of Benton, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during 2004. In future years, when prior year information is available, comparative data will be presented.

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 964,615	\$ 3,396,843	\$ 4,361,458
Operating grants and contributions	150,565	-	150,565
Capital grants and contributions	326,908	286,324	613,232
General revenue:			
Property taxes	4,295,839	-	4,295,839
State-shared revenue	1,535,802	-	1,535,802
Unrestricted investment earnings	121,101	157,575	278,676
Franchise fees	35,475	-	35,475
Transfers and other revenue	<u>107,950</u>	<u>9,915</u>	<u>117,865</u>
Total revenue	7,538,255	3,850,657	11,388,912
<b>Program Expenses</b>			
General government	2,054,918	-	2,054,918
Public safety	4,710,019	-	4,710,019
Public works	1,134,067	-	1,134,067
Recreation and culture	69,648	-	69,648
Other	37,969	-	37,969
Interest on long-term debt	77,520	-	77,520
Water and sewer	<u>-</u>	<u>3,391,922</u>	<u>3,391,922</u>
Total program expenses	<u>8,084,141</u>	<u>3,391,922</u>	<u>11,476,063</u>
<b>Change in Net Assets</b>	<b><u>\$ (545,886)</u></b>	<b><u>\$ 458,735</u></b>	<b><u>\$ (87,151)</u></b>

# Charter Township of Benton, Michigan

## Management's Discussion and Analysis (Continued)

The Charter Township had four major budget overruns in 2004. They were as follows:

	Budget	Actual	Overrun
Highways, Streets and Bridges	\$ 235,000	\$ 472,142	\$ 237,142
Community and Economic Development	85,000	158,009	73,009
Township Hall and Grounds	117,000	153,930	36,930
Trash and Rubbish	463,000	507,941	44,941

The Road Maintenance Project overrun is mainly due to a decision to move forward with the Benson Road Project. This is a 25-unit residential development project where all development infrastructure costs were incurred in 2004.

The Community and Economic Development overrun was caused by the addition of a fence for Woodridge Place and the cost of installation for gas and electric service at the Benson Road project.

Trash and rubbish overruns were a direct result of storm damage in 2004. The Charter Township hired an outside contractor to do storm damage cleanup at a cost of nearly \$46,000.

The township hall and grounds overrun was a result of the purchase of \$20,000 worth of property and a \$15,000 bill for the heating system for the new township hall.

No new debt was incurred in 2004. The only major capital acquisition made was the infrastructure for the Benson Road Subdivision of approximately \$156,000.

### The Future

Keeping the financial position of the Charter Township strong will be a major challenge and will require new millages or other new revenue sources to support the police and fire departments.

On August 2, 2005, the residents of the Charter Township are being asked to increase both millages for the fire and police departments by one-half mill.

The 2004 Audit Report is on file with the Township Clerk. If you have any questions about this report, please contact the Township Clerk's Office.

# Charter Township of Benton, Michigan

## Statement of Net Assets December 31, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 4,935,458	\$ 4,994,248	\$ 9,929,706
Receivables:			
Taxes	3,278,795	-	3,278,795
Special Assessments	261,930	1,143,670	1,405,600
Customers and others	392,862	1,004,997	1,397,859
Internal balances	(1,758,853)	1,758,853	-
Due from other governmental units	340,598	-	340,598
Bond issuance costs and other assets	-	132,733	132,733
Capital assets - Net (Note 5)	<u>3,411,613</u>	<u>8,589,654</u>	<u>12,001,267</u>
Total assets	10,862,403	17,624,155	28,486,558
<b>Liabilities</b>			
Accounts payable	318,236	89,024	407,260
Accrued and other liabilities	299,514	45,207	344,721
Accrued interest	-	75,845	75,845
Deferred revenue (Note 4)	4,274,370	-	4,274,370
Due to other governmental units	17,784	7,788	25,572
Accrued compensated absences (Note 7):			
Due within one year	353,688	-	353,688
Due in more than one year	562,672	-	562,672
Long-term debt (Note 7):			
Due within one year	122,604	95,000	217,604
Due in more than one year	<u>1,320,000</u>	<u>3,325,000</u>	<u>4,645,000</u>
Total liabilities	<u>7,268,868</u>	<u>3,637,864</u>	<u>10,906,732</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,969,009	5,169,654	7,138,663
Restricted for:			
Community development projects	284,788	-	284,788
Debt service	182,256	-	182,256
Drug enforcement activities	34,512	-	34,512
Unrestricted	<u>1,122,970</u>	<u>8,816,637</u>	<u>9,939,607</u>
Total net assets	<u>\$ 3,593,535</u>	<u>\$ 13,986,291</u>	<u>\$ 17,579,826</u>

# Charter Township of Benton, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 2,054,918	\$ 78,159	\$ 60,000	\$ 314,000
Public safety	4,710,019	269,547	82,458	-
Public works	1,134,067	616,909	8,107	12,908
Recreation and culture	69,648	-	-	-
Other	37,969	-	-	-
Interest on long-term debt	77,520	-	-	-
Total governmental activities	8,084,141	964,615	150,565	326,908
Business-type activities - Water and sewer	3,391,922	3,396,843	-	286,324
Total primary government	<u>\$ 11,476,063</u>	<u>\$ 4,361,458</u>	<u>\$ 150,565</u>	<u>\$ 613,232</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest income				
Franchise fees				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year				
<b>Net Assets</b> - End of year				

Statement of Activities  
Year Ended December 31, 2004

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,602,759)	\$ -	\$ (1,602,759)
(4,358,014)	-	(4,358,014)
(496,143)	-	(496,143)
(69,648)	-	(69,648)
(37,969)	-	(37,969)
<u>(77,520)</u>	<u>-</u>	<u>(77,520)</u>
(6,642,053)	-	(6,642,053)
<u>-</u>	<u>291,245</u>	<u>291,245</u>
(6,642,053)	291,245	(6,350,808)
4,295,839	-	4,295,839
1,535,802	-	1,535,802
121,101	157,575	278,676
35,475	-	35,475
<u>107,950</u>	<u>9,915</u>	<u>117,865</u>
<u>6,096,167</u>	<u>167,490</u>	<u>6,263,657</u>
(545,886)	458,735	(87,151)
<u>4,139,421</u>	<u>13,527,556</u>	<u>17,666,977</u>
<b><u>\$ 3,593,535</u></b>	<b><u>\$ 13,986,291</u></b>	<b><u>\$ 17,579,826</u></b>

# Charter Township of Benton, Michigan

## Governmental Funds Balance Sheet December 31, 2004

	General	Police	Fire	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 1,643,784	\$ 717,291	\$ 375,418	\$ 10,307	\$ 2,746,800
Investments (Note 3)	1,704,612	-	-	484,046	2,188,658
Receivables:					
Taxes	307,971	1,816,356	1,154,468	-	3,278,795
Special assessments	261,930	-	-	-	261,930
Customers and others	392,173	-	-	689	392,862
Due from other funds (Note 6)	-	83,799	193,536	215,130	492,465
Due from other governmental units	335,598	5,000	-	-	340,598
<b>Total assets</b>	<b>\$ 4,646,068</b>	<b>\$ 2,622,446</b>	<b>\$ 1,723,422</b>	<b>\$ 710,172</b>	<b>\$ 9,702,108</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 291,574	\$ 20,556	\$ 5,721	\$ 385	\$ 318,236
Accrued and other liabilities	147,095	93,032	58,793	594	299,514
Due to other funds (Note 6)	2,251,318	-	-	-	2,251,318
Due to other governmental units	17,784	-	-	-	17,784
Deferred revenue (Note 4)	924,155	2,408,910	1,503,998	-	4,837,063
<b>Total liabilities</b>	<b>3,631,926</b>	<b>2,522,498</b>	<b>1,568,512</b>	<b>979</b>	<b>7,723,915</b>
<b>Fund Balances</b>					
Reserved for:					
Grant-related expenditures	-	-	-	284,788	284,788
Drug enforcement income expenditures	-	34,512	-	-	34,512
Principal and interest payments on debt	-	-	-	182,256	182,256
Unreserved, reported in:					
General Fund	1,014,142	-	-	-	1,014,142
Special Revenue Funds	-	65,436	154,910	16,895	237,241
Capital Projects Fund	-	-	-	225,254	225,254
<b>Total fund balances</b>	<b>1,014,142</b>	<b>99,948</b>	<b>154,910</b>	<b>709,193</b>	<b>1,978,193</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,646,068</b>	<b>\$ 2,622,446</b>	<b>\$ 1,723,422</b>	<b>\$ 710,172</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,411,613
Special assessments and lot sales shown as deferred revenue in the funds	562,693
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,358,964)
<b>Net assets of governmental activities</b>	<b>\$ 3,593,535</b>

# Charter Township of Benton, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2004

	General	Police	Fire	Other Non- major Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 364,116	\$ 2,404,635	\$ 1,527,088	\$ -	\$ 4,295,839
Licenses and permits	252,630	34,457	-	25,155	312,242
Federal grants	-	31,498	30,960	-	62,458
State sources	1,543,909	5,643	-	-	1,549,552
Charges for services	492,305	-	-	-	492,305
Interest and rentals	147,516	-	-	2,997	150,513
Revenue from sales of land	1,604,500	-	-	-	1,604,500
Other	202,860	55,829	20,223	2,827	281,739
Total revenue	4,607,836	2,532,062	1,578,271	30,979	8,749,148
<b>Expenditures</b>					
General government	1,766,523	-	-	-	1,766,523
Public safety	443,709	2,756,483	1,545,770	25,475	4,771,437
Other	1,199,192	-	-	12,677	1,211,869
Debt service	-	-	-	197,520	197,520
Total expenditures	3,409,424	2,756,483	1,545,770	235,672	7,947,349
<b>Excess of Revenue Over (Under) Expenditures</b>	1,198,412	(224,421)	32,501	(204,693)	801,799
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	310,997	85,994	395,000	791,991
Transfers out	(791,991)	-	-	-	(791,991)
Total other financing sources (uses)	(791,991)	310,997	85,994	395,000	-
<b>Net Change in Fund Balances</b>	406,421	86,576	118,495	190,307	801,799
<b>Fund Balances - Beginning of year</b>	607,721	13,372	36,415	518,886	1,176,394
<b>Fund Balances - End of year</b>	<b>\$ 1,014,142</b>	<b>\$ 99,948</b>	<b>\$ 154,910</b>	<b>\$ 709,193</b>	<b>\$ 1,978,193</b>

# Charter Township of Benton, Michigan

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

**Net Change in Fund Balances - Total Governmental Funds** \$ 801,799

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	206,582
Current year allocation of depreciation	(179,595)
Current year loss on disposal of capital assets	(14,618)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (26,031)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) 105,638

Revenues from sales of subdivision lots are recorded in the statement of activities when the lots are sold; they are not reported in the funds until collected or collectible within 60 days of year end 314,000

Governmental funds recognize revenue when it is measurable and available; in the statement of activities, revenue is recognized when earned. This amount was recognized in fiscal 2003 under the full-accrual method (1,604,500)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 126,870

Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (276,031)

**Change in Net Assets of Governmental Activities** \$ (545,886)



# Charter Township of Benton, Michigan

## Proprietary Funds Statement of Net Assets December 31, 2004

	Sanitary Sewage System	Water System	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 1,803,623	\$ 1,174,999	2,978,622
Investments (Note 3)	1,007,813	1,007,813	2,015,626
Receivables			
Special assessments	37,199	67,769	104,968
Customer and other	432,678	572,319	1,004,997
Due from other funds (Note 6)	<u>770,960</u>	<u>987,893</u>	<u>1,758,853</u>
Total current assets	4,052,273	3,810,793	7,863,066
Noncurrent assets:			
Noncurrent special assessment receivable - Net of current portion	158,869	879,833	1,038,702
Bond issuance costs and other	132,733	-	132,733
Capital assets (Note 5)	<u>4,632,527</u>	<u>3,957,127</u>	<u>8,589,654</u>
Total noncurrent assets	<u>4,924,129</u>	<u>4,836,960</u>	<u>9,761,089</u>
Total assets	8,976,402	8,647,753	17,624,155
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	88,313	711	89,024
Accrued and other liabilities	41,656	3,551	45,207
Due to other governmental units	-	7,788	7,788
Bond interest payable	75,845	-	75,845
Current portion of long-term debt (Note 7)	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Total current liabilities	300,814	12,050	312,864
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	<u>3,325,000</u>	<u>-</u>	<u>3,325,000</u>
Total liabilities	<u>3,625,814</u>	<u>12,050</u>	<u>3,637,864</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,212,527	3,957,127	5,169,654
Unrestricted	<u>4,138,061</u>	<u>4,678,576</u>	<u>8,816,637</u>
Total net assets	<u>\$ 5,350,588</u>	<u>\$ 8,635,703</u>	<u>\$ 13,986,291</u>

# Charter Township of Benton, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

	Sanitary Sewage System	Water System	Total
<b>Operating Revenue</b>			
Sale of water	\$ -	\$ 1,502,793	\$ 1,502,793
Sewage disposal charges	1,894,050	-	1,894,050
Other revenue	9,915	-	9,915
Total operating revenue	1,903,965	1,502,793	3,406,758
<b>Operating Expenses</b>			
General operating expenses	1,460,419	1,141,073	2,601,492
Depreciation and amortization	326,252	279,525	605,777
Total operating expenses	1,786,671	1,420,598	3,207,269
<b>Operating Income</b>	117,294	82,195	199,489
<b>Nonoperating Revenue (Expense)</b>			
Interest income	76,259	81,316	157,575
Interest expense	(184,653)	-	(184,653)
Total nonoperating revenue (expense)	(108,394)	81,316	(27,078)
<b>Income Before Contributions</b>	8,900	163,511	172,411
<b>Capital Contributions</b>	78,967	207,357	286,324
<b>Change in Net Assets</b>	87,867	370,868	458,735
<b>Net Assets - Beginning of year</b>	5,262,721	8,264,835	13,527,556
<b>Net Assets - End of year</b>	<u>\$ 5,350,588</u>	<u>\$ 8,635,703</u>	<u>\$ 13,986,291</u>

# Charter Township of Benton, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2004

	Sanitary Sewage System	Water System	Totals
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,878,540	\$ 1,422,288	\$ 3,300,828
Payments to suppliers	(1,243,241)	(1,069,962)	(2,313,203)
Payments to employees	(328,842)	(84,623)	(413,465)
Internal activity - Payments to other funds	(2,906)	-	(2,906)
Other receipts (payments)	9,915	(15,958)	(6,043)
Net cash provided by (used in) operating activities	313,466	251,745	565,211
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of customer assessments (principal and interest)	43,648	180,624	224,272
Purchase of capital assets	(4,770)	(43,719)	(48,489)
Amounts paid to other funds for capital assets	-	(715,167)	(715,167)
Principal and interest paid on capital debt	(276,528)	-	(276,528)
Proceeds from contributed capital	-	50,972	50,972
Net cash provided by (used in) capital and related financing activities	(237,650)	(527,290)	(764,940)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	64,760	20,390	85,150
Purchase of investment securities	(1,007,813)	(1,007,813)	(2,015,626)
Net cash used in investing activities	(943,053)	(987,423)	(1,930,476)
<b>Net Decrease in Cash and Cash Equivalents</b>	(867,237)	(1,262,968)	(2,130,205)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,670,860	2,437,967	5,108,827
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,803,623</b>	<b>\$ 1,174,999</b>	<b>\$ 2,978,622</b>

# Charter Township of Benton, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2004

	Sanitary		
	Sewage System	Water System	Totals
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 117,294	\$ 82,195	\$ 199,489
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	326,252	279,525	605,777
Changes in assets and liabilities:			
Receivables	(15,510)	(80,505)	(96,015)
Due from other funds	(2,906)	-	(2,906)
Accounts payable	(135,586)	(11,367)	(146,953)
Accrued and other liabilities	23,922	(2,145)	21,777
Due to other governmental units	-	(15,958)	(15,958)
Net cash provided by (used in) operating activities	<u>\$ 313,466</u>	<u>\$ 251,745</u>	<u>\$ 565,211</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended December 31, 2004, the Sanitary Sewage System Fund and Water System Fund received \$78,967 and \$156,385, respectively, of infrastructure contributed by the General Fund.

# Charter Township of Benton, Michigan

## Fiduciary Funds Statement of Net Assets December 31, 2004

	Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 68,024	\$ 804,268
Investments (Note 3):		-
Corporate bonds	3,014,642	
U.S. government securities	2,002,497	
Common stock	7,696,501	
Bank investment pool funds	620,249	
Other assets	19,784	-
	<hr/>	<hr/>
Total assets	13,421,697	804,268
<b>Liabilities</b> - Due to other governmental units	<hr/> -	<hr/> 804,268
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 13,421,697</u></u>	<u><u>\$ -</u></u>

# Charter Township of Benton, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended December 31, 2004

	<u>Trust Funds</u>
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 417,260
Net increase in fair value of investments	<u>452,453</u>
Net investment income	869,713
Contributions:	
Employer	154,827
Employee	<u>118,898</u>
Total contributions	<u>273,725</u>
Total additions	1,143,438
<b>Deductions</b>	
Benefit payments	687,281
Administrative expenses	<u>37,386</u>
Total deductions	<u>724,667</u>
<b>Net Increase in Net Assets Held in Trust</b>	418,771
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>13,002,926</u>
End of year	<u><u>\$ 13,421,697</u></u>

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Benton, Michigan (the "Charter Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Benton, Michigan:

### **Reporting Entity**

The Charter Township is governed by an elected seven-member board of trustees. The accompanying financial statements present the Charter Township. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in the financial statements.

The Police and Fire Retirement System has been blended into the Charter Township's financial statements as the Pension Trust Fund. The system is governed by a five-member pension board that includes three individuals chosen by the Charter Township Board. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the Charter Township retains relative to the operations of the retirement system.

The Charter Township has excluded the Housing Commission from this report since the Charter Township is not able to impose its will on the Housing Commission. The Housing Commission was created by ordinance of the Charter Township of Benton, Michigan. The purpose is to provide safe, sanitary, and decent housing for qualifying senior and low-income families.

In August 2003, the Charter Township created a Brownfield Redevelopment Authority to revitalize selected environmentally distressed areas within the Charter Township limits. The Authority had no assets as of December 31, 2004 and no activity for the year then ended.

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 1 - Summary of Significant Accounting Policies (Continued)

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Charter Township reports the following major governmental funds:

**General Fund** - The General Fund is the Charter Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Police Fund** - The Police Fund accounts for the activities of the police protection department.

**Fire Fund** - The Fire Fund accounts for the activities of the fire protection department.

The Charter Township reports the following major proprietary funds:

**Sanitary Sewage System Fund** - The Sanitary Sewage System Fund accounts for the activities of the sewage collection system.

**Water System Fund** - The Water System Fund accounts for the activities of the water distribution system.

Additionally, the Charter Township reports the following fiduciary fund types:

**Agency Funds** - The Agency Funds account for assets held by the Charter Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 1 - Summary of Significant Accounting Policies (Continued)

**Trust Funds** - The Trust Funds account for the activities of the Police and Fire employees' retirement system and retiree health insurance fund by accumulating resources for pension benefit payments and health insurance premium payments for qualified employees and retirees.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Charter Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Charter Township's water and sewer function and various other functions of the Charter Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Fund and Sanitary Sewage Fund also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 1 - Summary of Significant Accounting Policies (Continued)

### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Charter Township's 2003 tax is levied on December 1, 2003 and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Charter Township totaled \$352.3 million, on which taxes levied consisted of 0.9785 mills for general operating purposes and 6.9840 and 4.4910 for police and fire operations, respectively. This resulted in approximately \$350,000 for operating and \$2.40 million and \$1.5 million for police and fire services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Charter Township as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water and sewer treatment system	10 to 50 years
Buildings and building improvements	15 to 50 years
Vehicles	5 to 7 years
Tools and equipment	5 to 7 years

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Charter Township of Benton, Michigan

Notes to Financial Statements  
December 31, 2004

## Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Charter Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Charter Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at January 1, 2004	\$ (486,382)
Current year building permit revenue	199,626
Related expenses - direct costs	<u>(354,662)</u>
Current year shortfall	<u>(155,036)</u>
Cumulative shortfall	<u>\$ (641,418)</u>

**Credit Cards** - The Charter Township does not have a credit card policy as required by the State of Michigan. The Charter Township Board intends to adopt a policy during fiscal 2006.

## Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Charter Township has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

# Charter Township of Benton, Michigan

Notes to Financial Statements  
December 31, 2004

## Note 3 - Deposits and Investments (Continued)

The Charter Township's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,746,800	\$ 2,978,622	\$ 872,292	\$ 6,597,714
Investments	<u>2,188,658</u>	<u>2,015,626</u>	<u>-</u>	<u>4,204,284</u>
Total	<u>\$ 4,935,458</u>	<u>\$ 4,994,248</u>	<u>\$ 872,292</u>	<u>\$ 10,801,998</u>

The breakdown between deposits and investments for the Charter Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 10,800,973
Investments in securities, mutual funds, and similar vehicles	-
Petty cash or cash on hand	<u>1,025</u>
Total	<u>\$ 10,801,998</u>

### **Deposits**

The bank balance of the Charter Township's deposits is \$10,513,247, of which approximately \$510,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Charter Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Charter Township evaluates each financial institution with which it deposits Charter Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Charter Township of Benton, Michigan

Notes to Financial Statements  
December 31, 2004

## Note 3 - Deposits and Investments (Continued)

### Investments

The Pension Trust is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Charter Township or its agent in the Charter Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Charter Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Charter Township's name.

At year end, the Charter Township's investment balances were categorized as follows:

	Category 1	Category 2	Category 3
Primary government:			
Corporate bonds	\$ -	\$ -	\$ 3,014,642
U.S. government securities	-	-	2,002,497
Common stock	-	-	7,696,501
Sutotal - categorized investments	-	-	12,713,640
Investments not subject to categorization -			
Bank investment pool funds	-	-	620,249
Total primary government	\$ -	\$ -	\$ 13,333,889

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

# Charter Township of Benton, Michigan

## Notes to Financial Statements December 31, 2004

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds			Governmental Activities
	Unavailable	Unearned	Total	Unearned
Property Taxes	\$ -	\$ 4,210,535	\$ 4,210,535	\$ 4,210,535
Woodridge Place Subdivision lot sales	314,000	-	314,000	-
Woodridge Place Subdivision deposits		14,000	14,000	14,000
Special assessments	248,693		248,693	-
Police Block Grant payments received prior to making expenditures	-	49,835	49,835	49,835
Total	<u>\$ 562,693</u>	<u>\$ 4,274,370</u>	<u>\$ 4,837,063</u>	<u>\$ 4,274,370</u>

### Note 5 - Capital Assets

Capital asset activity of the Charter Township's governmental and business-type activities was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 486,866	\$ 20,283	\$ -	\$ 507,149
Capital assets being depreciated:				
Buildings and improvements	3,348,258	27,580	-	3,375,838
Vehicles	1,841,581	100,690	116,157	1,826,114
Tools and equipment	662,417	58,029	-	720,446
Subtotal	5,852,256	186,299	116,157	5,922,398
Accumulated depreciation:				
Buildings and improvements	940,074	60,165	-	1,000,239
Vehicles	1,461,632	78,476	101,539	1,438,569
Tools and equipment	538,172	40,954	-	579,126
Subtotal	2,939,878	179,595	101,539	3,017,934
Net capital assets being depreciated	2,912,378	6,704	14,618	2,904,464
Net capital assets	<u>\$ 3,399,244</u>	<u>\$ 26,987</u>	<u>\$ 14,618</u>	<u>\$ 3,411,613</u>



# Charter Township of Benton, Michigan

## Notes to Financial Statements December 31, 2004

### Note 5 - Capital Assets (Continued)

	Balance January 1, 2004	Additions	Balance December 31, 2004
<b>Business-type Activities</b>			
Capital assets not being depreciated:			
Land	\$ 34,628	\$ -	\$ 34,628
Capital assets being depreciated:			
Utility system	17,275,355	276,753	17,552,108
Vehicles	168,769	-	168,769
Other tools and equipment	157,751	7,088	164,839
Subtotal	17,601,875	283,841	17,885,716
Accumulated depreciation:			
Utility system	8,528,474	582,839	9,111,313
Vehicles	156,107	3,618	159,725
Other tools and equipment	46,652	13,000	59,652
Subtotal	8,731,233	599,457	9,330,690
Net capital assets being depreciated	8,870,642	(315,616)	8,555,026
Net capital assets	<u>\$ 8,905,270</u>	<u>\$ (315,616)</u>	<u>\$ 8,589,654</u>

Depreciation expense was charged to programs of the Charter Township as follows:

<b>Governmental Activities:</b>	
General government	\$ 53,399
Public safety	96,381
Public works	25,292
Recreation and culture	4,523
Total governmental activities	<u>\$ 179,595</u>
<b>Business-type Activities:</b>	
Sanitary Sewage System Fund	\$ 319,931
Water System Fund	279,526
Total business-type activities	<u>\$ 599,457</u>

# Charter Township of Benton, Michigan

Notes to Financial Statements  
December 31, 2004

## Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Governmental funds:		
Police Fund	General Fund	\$ 83,799
Fire Fund	General Fund	193,536
Other Governmental Funds	General Fund	<u>215,130</u>
Total governmental funds		492,465
Proprietary Funds:		
Sanitary Sewage System Fund	General Fund	770,960
Water System Fund	General Fund	<u>987,893</u>
Total proprietary funds		<u>1,758,853</u>
Total interfund receivables		<u><u>\$ 2,251,318</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Community Development	\$ 15,000
General Fund	Police Fund	310,997
General Fund	Fire Fund	85,994
General Fund	Debt Service Fund	<u>380,000</u>
Total		<u><u>\$ 791,991</u></u>

The transfer from the General Fund to the Debt Service Fund is to cover all debt service requirements for the upcoming year. The transfers from the General Fund to the Police, Fire, and Community Development Funds are to subsidize operating costs of these funds.

# Charter Township of Benton, Michigan

## Notes to Financial Statements December 31, 2004

### Note 7 - Long-term Debt

The Charter Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Charter Township. Municipal contractual agreements and leases are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Municipal contract	4.99%	2016	\$ 1,560,000	\$ -	\$ 120,000	\$ 1,440,000	\$ 120,000
Lease payable	19.68%	2005	9,474	-	6,870	2,604	2,604
Total governmental installment debt			1,569,474	-	126,870	1,442,604	122,604
Accumulated employee benefits			640,329	276,031	-	916,360	353,688
Total governmental activities			2,209,803	276,031	126,870	2,358,964	476,292
<b>Business-type Activities -</b>							
General obligation bonds	5.0-5.5%	2025	3,510,000	-	90,000	3,420,000	95,000
Total outstanding debt			<u>\$ 5,719,803</u>	<u>\$ 276,031</u>	<u>\$ 216,870</u>	<u>\$ 5,778,964</u>	<u>\$ 571,292</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 122,604	\$ 71,431	\$ 194,035	\$ 95,000	\$ 182,028	\$ 277,028
2006	120,000	65,253	185,253	95,000	177,278	272,278
2007	120,000	59,181	179,181	100,000	172,526	272,526
2008	120,000	53,260	173,260	105,000	167,528	272,528
2009	120,000	47,039	167,039	115,000	162,278	277,278
2010-2014	600,000	144,211	744,211	660,000	719,678	1,379,678
2015-2019	240,000	15,170	255,170	855,000	528,302	1,383,302
2020-2024	-	-	-	1,130,000	266,200	1,396,200
2025	-	-	-	265,000	14,575	279,575
Total	<u>\$ 1,442,604</u>	<u>\$ 455,545</u>	<u>\$ 1,898,149</u>	<u>\$ 3,420,000</u>	<u>\$ 2,390,393</u>	<u>\$ 5,810,393</u>

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 8 - Risk Management

The Charter Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Charter Township participates in the Michigan Municipal League (risk pool) for claims relating to workers' compensation and in the Michigan Townships Participating Plan for all other claims.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

## Note 9 - Postemployment Benefits

The Charter Township provides health care benefits at retirement to all employees covered under the police and fire retirement system, in accordance with labor contracts. Currently, 16 retirees are eligible. The Charter Township includes pre-Medicare retirees and their dependents in its insured health care plan, and pays the monthly premium cost up to \$400 for all police and fire retirement system participants. The participant must pay any balance. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$70,827.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 10 - Pension Plan

### **Plan Description**

The Police and Fire Pension Plan is a single-employer defined benefit pension plan that is administered by the Charter Township of Benton Police and Fire Employees Retirement System; this plan covers all full-time police and fire employees of the Charter Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 39 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 45 current active employees. The plan does not issue a separate financial report.

### **Contributions**

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Charter Township's competitive bargaining units and requires a contribution from the employees of 6.5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

### **Annual Pension Cost**

For the year ended December 31, 2004, the Charter Township's annual pension cost of \$0 for the plan was equal to the Charter Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increase of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period.

# Charter Township of Benton, Michigan

Notes to Financial Statements  
December 31, 2004

## Note 10 - Pension Plan (Continued)

### Reserves

As of December 31, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,894,285
Reserve for retired benefit payments	10,970,441

### Three-year Trend Information

	Year Ended December 31,		
	2002	2003	2004
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

## Note 11 - Defined Contribution Retirement Plan

The Charter Township provides pension benefits to all of its full-time employees (except police and fire) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Benton Charter Township Board, the Charter Township contributes 10 percent of employees' gross earnings and employees contribute 5 percent of earnings. In accordance with these requirements, the Charter Township contributed \$140,952 during the current year and employees contributed \$70,476.

# Charter Township of Benton, Michigan

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Notes to Financial Statements  
December 31, 2004

## Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Charter Township of Benton has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Charter Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Charter Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$6,350,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at January 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$600,000 to reflect the historical cost of the Charter Township's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling approximately \$2,200,000 previously reported in the General Long-term Debt Account Group.

## Required Supplemental Information

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# Charter Township of Benton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original and Amended Budget	Actual	Variance
<b>Revenue</b>			
Taxes	\$ 353,500	\$ 364,116	\$ 10,616
Licenses and permits	217,000	252,630	35,630
State sources	1,600,000	1,543,909	(56,091)
Charges for services	472,000	492,305	20,305
Interest	109,000	147,516	38,516
Revenue from sales of land	1,600,000	1,604,500	4,500
Other revenue	113,500	202,860	89,360
<b>Total revenue</b>	<b>4,465,000</b>	<b>4,607,836</b>	<b>142,836</b>
<b>Expenditures</b>			
General government:			
Township Board	725,000	641,339	83,661
Supervisor	81,000	73,640	7,360
Elections	75,000	91,378	(16,378)
Assessor	283,000	292,031	(9,031)
Clerk	278,000	263,029	14,971
Board of Review/Zoning Board of Appeals	6,000	5,601	399
Treasurer	88,000	76,369	11,631
Township Hall and grounds	117,000	153,930	(36,930)
Planning Commission	13,000	11,197	1,803
Community and Economic Development	85,000	158,009	(73,009)
<b>Total general government</b>	<b>1,751,000</b>	<b>1,766,523</b>	<b>(15,523)</b>
Public Safety:			
Building	385,000	354,662	30,338
Ordinance officer	86,000	89,047	(3,047)
<b>Total public safety</b>	<b>471,000</b>	<b>443,709</b>	<b>27,291</b>

# Charter Township of Benton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2004

	Original and Amended Budget	Actual	Variance
<b>Expenditures (Continued)</b>			
Other:			
Street lighting	\$ 124,000	\$ 105,642	\$ 18,358
Trash and rubbish	463,000	507,941	(44,941)
Highways, streets, and bridges	235,000	472,142	(237,142)
Park	75,000	65,125	9,875
Garage	60,000	48,342	11,658
Total other	957,000	1,199,192	(242,192)
Total expenditures	3,179,000	3,409,424	(230,424)
<b>Excess of Revenue Over Expenditures</b>	1,286,000	1,198,412	(87,588)
<b>Other Financing Uses - Transfers Out</b>	(595,000)	(791,991)	(196,991)
<b>Excess of Revenue Over Expenditures and Other Financing Uses</b>	691,000	406,421	(284,579)
<b>Fund Balance - Beginning of year</b>	607,721	607,721	-
<b>Fund Balance - End of year</b>	<u><u>\$ 1,298,721</u></u>	<u><u>\$ 1,014,142</u></u>	<u><u>\$ (284,579)</u></u>

# Charter Township of Benton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Police Fund Year Ended December 31, 2004

	Original and Amended Budget	Actual	Variance
<b>Revenue</b>			
Taxes	\$ 2,373,000	\$ 2,404,635	\$ 31,635
Licenses and permits	15,000	34,457	19,457
Federal sources	75,000	31,498	(43,502)
State sources	-	5,643	5,643
Other revenue	<u>37,000</u>	<u>55,829</u>	<u>18,829</u>
Total revenue	2,500,000	2,532,062	32,062
<b>Police Expenditures</b>	<u>2,800,000</u>	<u>2,756,483</u>	<u>43,517</u>
<b>Excess of Expenditures Over Revenue</b>	(300,000)	(224,421)	75,579
<b>Other Financing Sources - Transfers in</b>	<u>301,000</u>	<u>310,997</u>	<u>9,997</u>
<b>Excess of Revenue and Other Financing Sources Over Expenditures</b>	1,000	86,576	85,576
<b>Fund Balance - Beginning of year</b>	<u>13,372</u>	<u>13,372</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 14,372</u></u>	<u><u>\$ 99,948</u></u>	<u><u>\$ 85,576</u></u>

# Charter Township of Benton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Fire Fund Year Ended December 31, 2004

	Original and Amended Budget	Actual	Variance
<b>Revenue</b>			
Taxes	\$ 1,503,400	\$ 1,527,088	\$ 23,688
Federal sources	-	30,960	30,960
Other revenue	<u>16,600</u>	<u>20,223</u>	<u>3,623</u>
Total revenue	1,520,000	1,578,271	58,271
<b>Fire Expenditures</b>	<u>1,605,000</u>	<u>1,545,770</u>	<u>59,230</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(85,000)	32,501	117,501
<b>Other Financing Sources</b> - Transfers in	<u>86,000</u>	<u>85,994</u>	<u>(6)</u>
<b>Excess of Revenue and Other Financing Sources Over Expenditures</b>	1,000	118,495	117,495
<b>Fund Balance</b> - Beginning of year	<u>36,415</u>	<u>36,415</u>	<u>-</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 37,415</u></u>	<u><u>\$ 154,910</u></u>	<u><u>\$ 117,495</u></u>

# Charter Township of Benton, Michigan

## Required Supplemental Information Police and Fire Employees' Pension System Schedule of Funding Progress December 31, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/98	\$ 12,274,956	\$ 11,111,822	\$ (1,163,134)	110.5	\$ 1,687,228	(68.9)
12/31/99	13,572,443	10,365,971	(3,206,472)	130.9	1,766,000	(181.6)
12/31/00	14,489,505	11,241,407	(3,248,098)	128.9	2,027,988	(160.2)
12/31/01	15,031,008	11,826,984	(3,204,024)	127.1	2,095,644	(152.9)
12/31/02	14,917,190	12,430,450	(2,486,740)	120.0	2,122,210	(117.2)
12/31/03	14,561,567	13,288,345	(1,273,222)	109.6	2,288,623	(55.6)

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
12/31/99	12/31/97	\$ 72,173	100.0
12/31/100	12/31/98	-	100.0
12/31/101	12/31/99	-	100.0
12/31/102	12/31/00	-	100.0
12/31/103	12/31/01	-	100.0
12/31/104	12/31/02	-	100.0

\* The required contribution is expressed to the Charter Township as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.0%
Projected salary increases*	4.0%
*Includes inflation at	4.0%
Cost of living adjustments	None

# Charter Township of Benton, Michigan

## Note to Required Supplemental Information December 31, 2004

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. The budgets are prepared by the Charter Township Controller and approved by the Charter Township Board prior to the start of the fiscal year. The budget was not amended during the year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Benton, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
<b>General Fund:</b>		
General government:		
Township hall and grounds	\$ 117,000	\$ 153,930
Community development	85,000	158,009
Other:		
Trash and rubbish	463,000	507,941
Highways, streets, and bridges	235,000	472,142

## Other Supplemental Information

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# Charter Township of Benton, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2004

	Rental Ordinance	Community Development	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
<b>Assets</b>					
Cash and equivalents	\$ -	\$ 10,307	\$ -	\$ -	\$ 10,307
Investments	-	258,792	-	225,254	484,046
Receivables - Net	-	689	-	-	689
Due from other funds	<u>17,874</u>	<u>15,000</u>	<u>182,256</u>	<u>-</u>	<u>215,130</u>
Total assets	<b><u>\$ 17,874</u></b>	<b><u>\$ 284,788</u></b>	<b><u>\$ 182,256</u></b>	<b><u>\$ 225,254</u></b>	<b><u>\$ 710,172</u></b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 385	\$ -	\$ -	\$ -	\$ 385
Accrued and other liabilities	<u>594</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>594</u>
Total liabilities	<u>979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>979</u>
<b>Fund Balances</b>					
Reserved	-	284,788	182,256	-	467,044
Unreserved	<u>16,895</u>	<u>-</u>	<u>-</u>	<u>225,254</u>	<u>242,149</u>
Total fund balances	<u>16,895</u>	<u>284,788</u>	<u>182,256</u>	<u>225,254</u>	<u>709,193</u>
Total liabilities and fund balances	<b><u>\$ 17,874</u></b>	<b><u>\$ 284,788</u></b>	<b><u>\$ 182,256</u></b>	<b><u>\$ 225,254</u></b>	<b><u>\$ 710,172</u></b>



# Charter Township of Benton, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2004

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Rental Ordinance	Community Development	Debt Service Fund	Capital Projects	
<b>Revenue</b>					
Licenses and permits	\$ 25,155	\$ -	\$ -	\$ -	\$ 25,155
Interest income	-	-	66	2,931	2,997
Other	-	2,827	-	-	2,827
Total revenue	25,155	2,827	66	2,931	30,979
<b>Expenditures</b>					
Current:					
Public safety	25,475	-	-	-	25,475
Other	-	-	12,677	-	12,677
Debt service:					
Principal	-	-	120,000	-	120,000
Interest	-	-	77,520	-	77,520
Total expenditures	25,475	-	210,197	-	235,672
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	(320)	2,827	(210,131)	2,931	(204,693)
<b>Other Financing Sources - Transfers in</b>	-	15,000	380,000	-	395,000
<b>Net Change in Fund Balances</b>	(320)	17,827	169,869	2,931	190,307
<b>Fund Balances - Beginning of year</b>	17,215	266,961	12,387	222,323	518,886
<b>Fund Balances - End of year</b>	<b>\$ 16,895</b>	<b>\$ 284,788</b>	<b>\$ 182,256</b>	<b>\$ 225,254</b>	<b>\$ 709,193</b>

# Charter Township of Benton, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds December 31, 2004

	Pension Trust	Retiree Health Insurance	Totals	Current Tax Collections	Delinquent Tax	Totals
<b>Assets</b>						
Cash and equivalents	\$ 68,024	\$ -	\$ 68,024	\$ 625,532	\$ 178,736	\$ 804,268
Investments	12,776,918	556,971	13,333,889	-	-	-
Other assets	<u>19,784</u>	<u>-</u>	<u>19,784</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	12,864,726	556,971	13,421,697	<u>\$ 625,532</u>	<u>\$ 178,736</u>	<u>\$ 804,268</u>
<b>Liabilities</b> - Due to other governmental units	<u>-</u>	<u>-</u>	<u>-</u>			
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 12,864,726</u>	<u>\$ 556,971</u>	<u>\$ 13,421,697</u>			

# Charter Township of Benton, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Trust Funds December 31, 2004

	Pension Trust	Retiree Health Insurance	Totals
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 407,968	\$ 9,292	\$ 417,260
Net increase in fair value of investments	<u>416,800</u>	<u>35,653</u>	<u>452,453</u>
Net investment income	824,768	44,945	869,713
Contributions:			
Employer	-	154,827	154,827
Employee	<u>118,898</u>	<u>-</u>	<u>118,898</u>
Total additions	943,666	199,772	1,143,438
<b>Deductions</b>			
Benefit payments	616,454	70,827	687,281
Administrative expenses	<u>35,925</u>	<u>1,461</u>	<u>37,386</u>
Total deductions	<u>652,379</u>	<u>72,288</u>	<u>724,667</u>
<b>Net Increase in Net Assets</b>	291,287	127,484	418,771
<b>Net Assets Held in Trust for Benefits</b>			
Beginning of year	<u>12,573,439</u>	<u>429,487</u>	<u>13,002,926</u>
End of year	<u><b>\$ 12,864,726</b></u>	<u><b>\$ 556,971</b></u>	<u><b>\$ 13,421,697</b></u>



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To the Members of the Township Board  
Charter Township of Benton, Michigan  
1725 Territorial Road  
Benton Harbor, Michigan 49022

In planning and performing our audit of the financial statements of the Charter Township of Benton, Michigan for the year ended December 31, 2004, we considered the Township's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

## **FINANCIAL OVERVIEW**

During the year ended December 31, 2004, the Township's overall financial condition continued to improve with each fund experiencing a net increase for the year. Approximate increases in fund balances/retained earnings for the year ended December 31, 2004 are as follows: General Fund - \$406,000, Police - \$86,000, Fire - \$118,000, Water Fund - \$370,000, and Sewer Fund - \$88,000. In the General Fund, Police Fund, and Fire Fund, excess of revenue over expenditures and other financing sources (uses) exceeded budgeted amounts by \$157,000, \$86,000, and \$118,000, respectively. We compliment the Board on its sound budgeting practices and planning processes. By maintaining a strong General Fund fund balance, the Township is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

## **NEW REPORT FORMAT**

As you are probably aware, the format of this year's financial statements looks different than in years past. During 2004, the Township adopted the requirements of the new Governmental Accounting Standard Board Standard #34. Most noticeably, your financial statements begin with a new section, a management's discussion and analysis. Other changes involve the equity portion of the statement of net assets, format changes to both the statement of net assets and statement of cash flows, and several changes to the notes to financial statements. We would be happy to discuss these changes further at your convenience.

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## **CONTROL OVER MANUAL JOURNAL ENTRIES**

Through our discussions with management, it was noted that all manual journal entries are initiated, entered, and reviewed by the same person. We recommend an independent review of all manual entries and related documentation on a monthly basis. This will strengthen the Township's internal controls.

## **BOARD APPROVAL OF INVOICES AND CAPITAL ASSET PURCHASES**

During our testing of cash disbursements, we noted that the Township utilizes a hand-typed check system when an invoice payment needs to be expedited. These items are supposed to be added to the board listing to be approved at the next board meeting. We noted several items that were never added to a listing to be approved. In addition, some invoices were paid through the payroll disbursement system to avoid hand-typing a check. Several of these types of items were reviewed and none were found to have been approved by the board. We strongly recommend that only hand-typed accounts payable checks be used in the future and that all of these checks be approved by the board.

In addition, we tested the purchase of a capital asset which was over the \$2,000 board approval requirement threshold. We were not able to locate approval of this purchase in the board minutes. Management was not able to assist us with locating documentation of board pre-approval of this capital asset purchase. We recommend that the capital asset policy be followed in all instances in the future.

## **ACCOUNTS RECEIVABLE/BILLING SYSTEM**

It was noted during the audit that the customer accounts receivable trial balance is not reconciled to the general ledger on a monthly basis. The customer billings were posted to the general ledger every six months during the year, rather than on a monthly basis. We recommend that these billings be posted on a monthly or bi-monthly basis, as the billing cycle permits. This will allow for the general ledger to be as accurate as possible. Also, the quarterly financial reports provided to the board will be more accurate if this information is included.

## **COMPENSATED ABSENCES APPROVAL AND TRACKING**

During our testing of compensated absences, we became aware that the various departments within the Township are not following Township policy related to the use of time-off request forms. It appears the Police and Fire Department are not using these forms in some or all cases. In addition, there have been instances of sick or vacation days used not being subtracted from an employee's accumulated balance. These instances could be minimized by utilizing the pre-approved form for vacation days and the request for sick pay form for sick days. We strongly recommend that all departments be required to consistently implement and maintain the Township's board-approved compensated absence policies, in order to reduce the occurrences of inaccuracies within the compensated absence accrual balances.

## **UNALLOWED EXPENDITURES**

The Board-approved donations to both the Senior Center and Senior Nutrition Services during the year. While the State of Michigan does allow appropriations to services for seniors over the age of 60 years, there are specific guidelines that must be in place before these types of expenditures become allowable. For instance, there must be a written contract between the municipality and the independent public or private not-for-profit senior service. In addition, the terms of this contract must be published in a local newspaper within 10 days of the signing of the agreement. It is our understanding that these guidelines were not met by the Township in relation to the donations given during 2004. More information about allowable expenditures can be found on the Michigan Department of Treasury website at [www.michigan.gov/treasury/1,1607,7-121-1751\\_2194-7603--,00.html](http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-7603--,00.html).

It was also noted during our testing of expenditures that the Township appears to be paying health insurance premiums on behalf of one of the Township attorneys. The attorney is not an employee of the Township. We recommend that this practice be reviewed to avoid the appearance of impropriety.

## **OUTSIDE PAYROLL SERVICES**

During our testing of payroll, we noted one instance in which an employee was paid an incorrect amount. It is our understanding that this is due to gross pay amounts being manually calculated by Township personnel and then transmitted to the outside payroll service provider. In our experience, most payroll service providers calculate the pay based on rates and hours provided by the client. This process of having the outside provider calculate the pay adds an additional level of control over the payroll cycle. Township management should discuss this with the provider and determine whether this is something that can be accomplished using the same provider.

## **GENERAL LEDGER ACCOUNTING SYSTEM**

Over the past several years, the Township's computerized accounting system has become obsolete. We recommend that the computer system be upgraded to a more current, supported Microsoft Windows-based system. We would be happy to assist the Township in researching several potential systems that would fulfill the needs of the Township.

## **ACH/ELECTRONIC TRANSFER AND CREDIT CARD RESOLUTIONS**

The Township continues to utilize ACH or electronic transfer transactions and credit cards, but does not have board-approved policies for these types of transactions. The State of Michigan requires board-approved resolutions to authorize these transactions. We have provided sample resolutions to management and strongly urge the Township Board to approve resolutions for these types of transactions at its earliest opportunity.

## **HEALTH CARE COSTS**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the Township may want to consider this option as it evaluates and continues to try to control its health care costs.

## **RETIREE HEALTH CARE BENEFITS**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008, depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. For the Township, implementation would be in the year 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So – funding the contribution will actually reduce your long-run cost.

## STATE-SHARED REVENUE

State-shared revenue accounts for approximately 33 percent Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state-shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue-sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue-sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue-sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the governor in early 2005). Also, during October 2004, the governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the Township to be very conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

The table below details state-shared revenue for the Township over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Township compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$658,749	\$1,163,432	\$1,822,181	\$0
2001	\$772,479	\$1,064,491	\$1,836,970	\$(14,789)
2002	\$772,074	\$1,075,335	\$1,847,409	\$(25,228)
2003	\$641,260	\$1,093,539	\$1,734,799	\$87,382
2004	\$477,493	\$1,081,662	\$1,559,155	\$263,026

We will continue to update the Township as developments occur.



## SUCCESSION PLANNING

The Township controller is contracted through December 31, 2009, and it is our understanding he will retire effective upon this date. As you are all well aware, the Township's current controller is responsible for many significant duties. These duties extend significantly beyond the accounting function. It may be difficult to find another single individual with enough experience to be able to perform all of these duties. We recommend that the Board begin planning for his successor or successors soon.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and Township staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience. This report is intended solely for the information and use of the Township Board.

*Plante & Moran, PLLC*

May 4, 2005